

**12/7/77**

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 12/7/77;  
Container 54

To See Complete Finding Aid:

[http://www.jimmycarterlibrary.gov/library/findingaids/Staff\\_Secretary.pdf](http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf)

THE PRESIDENT'S SCHEDULE

Wednesday - December 7, 1977

---

8:15 Dr. Zbigniew Brzezinski - The Oval Office.

8:45 Congressional Liaison/Energy Options.  
The Private Study.

8:55 Photograph with Senator Walter Huddleston  
(5 min.) and Secretary Robert Bergland. (Mr. Frank  
Moore) - The Oval Office.

10:30 Mr. Jody Powell - The Oval Office.

2:00 Receive Maccabean Torch from MASADA Delegation,  
(10 min.) the Youth Movement of the Zionist Organization  
of America. (Ms. Midge Costanza) - Oval Office.

2:30 Mr. James Fallows/Staff - the Cabinet Room.  
(15 min.)

THE WHITE HOUSE  
WASHINGTON

December 7, 1977

Secretary Blumenthal

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson  
ASSISTANT SECRETARY OF THE TREASURY

*bcc: Hamilton*



THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

December 7, 1977

cc Mike -  
I agree with  
this  
J.C.

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Assistant Secretary of the Treasury (Tax Policy)

I want to let you know the arrangements I am making as a consequence of Larry Woodworth's untimely passing.

When Larry became incapacitated, I appointed Don Lubick, his principal deputy, as the Acting Assistant Secretary. Lubick is a highly competent and respected tax lawyer who served in the Treasury as Tax Legislative Counsel from 1961-64. He is well known in the tax bar and on the Hill. He was specially brought in by Larry who had the highest regard for him and I have equally learned to appreciate Lubick's capacities over the months. I feel confident that he will be able to carry on, at least temporarily, where Larry left off on tax reform.

Incidentally, the Tax Policy Department as a whole has extremely competent and experienced career employees in it. It also has a number of others brought in specially by Larry to fill the senior positions. As a result, I am pretty sure we will have good continuity of operations.

My feeling is that it is not feasible -- and would be disruptive -- to select someone for the top position at this stage in the development of the proposals to be made in January 1978. If we selected someone from the outside, it would not be possible to get him or her on board before the proposals were submitted and the appointee would also not have an understanding of the phases that we have gone through in the development of the program and of your views. Also, I think Don Lubick should have an opportunity to be considered to succeed Larry and we will all have a better view of whether that is the best course in a couple of months.

In any case, in view of the sensitive nature of this position, I would want to review the situation with the chairmen of the tax committees before making any recommendation to you.

I would, of course, be glad to discuss this with you further if you desire.

Mike

W. Michael Blumenthal

2:00 PM

THE PRESIDENT HAS SEEN.

**Electrostatic Copy Made  
for Preservation Purposes**

THE WHITE HOUSE

WASHINGTON

December 2, 1977

MEETING WITH MASADA,  
THE YOUTH MOVEMENT OF THE ZIONIST ORGANIZATION OF AMERICA

Wednesday, December 7, 1977

2:00 p.m. (10 minutes)

The Oval Office

From: Margaret Costanza *mc*

I. PURPOSE

To signal the commencement of the National Torch Relays in honor of the celebration of Chanukah, the Jewish Festival of Lights.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: Eleven years ago Masada, Youth Movement of the Zionist Organization of America, initiated a new way to celebrate Chanukah, the Jewish Festival of Lights. A torch, lit at the tomb of the Maccabees in Israel, is flown to the United States and used to ignite replica torches. Then borne on foot to Chanukah-lighting ceremonies in Jewish communities throughout America--thereby reemphasizing the Jewish community's link to the ancient Maccabees.

B. Participants: See Tab A.

C. Press Plan: White House photo and press opportunity.

III. TALKING POINTS

1. The Israeli and American youth representatives will turn over the torch to the President.

2. Brief statement by the President:

a. I want to express my appreciation to the young people of the Masada Youth Movement and the Zionist Organization of America for this opportunity to participate this year in their marvelous annual Chanukah Torch Relay. The bringing of this Torch of Freedom from Israel to America is symbolic of the shared traditions that serve as a bond of affinity between the two countries.

b. The celebration of Chanukah is meaningful to all people of the Judeo Christian tradition for it represents the eternal human yearning for freedom in both the spiritual and political sense. For the Jewish people the Maccabean struggle was one of the great milestones in the annals of their national existence in the land of Israel.

c. For all people, the success of the Maccabees can serve as an inspiration, not only because it was a triumph of a few against a mighty empire but because it was the first struggle in the recorded history of mankind in which religious freedom was the central issue.

d. At this Chanukah season we have reason to hope that modern Israel is on the threshold of success in its long struggle for peace and security.

TAB A

PARTICIPANTS

Dr. Joseph P. Sternstein  
President  
Zionist Organization of America

Melvin Galun  
National Director  
Zionist Organization of America Youth Department

Yoav Tal  
Senior Israeli Representative  
MASADA

Yafit Muller  
Member  
Young Maccabees, Israel

Oded Solyom  
National President  
MASADA

Ellen Meyers  
Member  
MASADA

Ivan J. Novick  
Chairman of National Executive Committee  
Zionist Organization of America

Leon Ilutovich  
National Executive Director  
Zionist Organization of America



THE WHITE HOUSE  
WASHINGTON

December 7, 1977

Jim Fallows

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hutcheson

STATE OF UNION ADDRESS

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
✓	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

Electrostatic Copy Made  
for Preservation Purposes.

2:30 PM

THE WHITE HOUSE

WASHINGTON

December 7, 1977

MEMORANDUM TO THE PRESIDENT

FROM: JIM FALLOWS *Jim*

SUBJECT: State of the Union Address

These are some of the areas where we would like your further guidance today:

1) How to discuss our tax proposals.

As I understand it from Charlie Schultze, our tax proposals will contain some reforms, but certainly not the comprehensive overhaul we discussed during the campaign. Obviously we will come in for heavy criticism on this point. (In fact, it's already begun, in a column in yesterday's Star by Germond and Witcover.) The standard we'll be held up to is the one you raised in your acceptance speech: "All my life I have heard promises about tax reform, but it never quite happens. With your help, we are finally going to make it happen. And you can depend on it."

*Goal  
hasn't  
changed -  
First  
major  
step*

We have two choices in dealing with this. One is to ignore it, to pretend there's no inconsistency. That is more or less what the public would expect the average politician to do. The other is to admit very frankly what has happened -- pointing it out ourselves before anyone else can. You could face your previous promise, quoting it in the very baldest way you stated it during the campaign; say that you still believe in that goal; and explain the two reasons we are not taking those steps now. The first reason is that it's important to get the tax reductions passed as quickly as we can; the second, that the economy needs to regain full health before we make adjustments of that scale. (The analogy we discussed with Charlie was that when you are doing elective heart surgery you wait for a healthy patient.)

The disadvantages of this frank approach are that it subtly slams the Congress (by saying that they would stall on reductions if reforms were attached) and that, as Charlie warns, it may get business worried, if they think you'll be coming back with a comprehensive reform package as soon as the tax cuts are passed. I think it is possible to avoid those dangers by proper phrasing; and I think you would gain far more with the public than you would lose by demonstrating a degree of candor and forthrightness they are not accustomed to seeing.

2) What tone to take.

In his first fireside chat, Franklin Roosevelt gave a homespun economics lesson: this is how a check works, this is what happens when there's a run on the bank. Sometimes -- such as when he spoke -- such nuts and bolts understanding is necessary if people are to have any grasp at all of what we are trying to do. That is true now too, since our economic program consists of relatively few dramatic (and therefore easily-understood) initiatives, and instead a number of subtle economic adjustments. Would you be willing to try the same approach -- that of a teacher, making sure people understand why inflation means a steadily rising tax burden, why unemployment hurts those with jobs, why hiring more minorities and women can mean more jobs for everyone, what we are doing to cope with the loss of jobs to foreign competitors? I think there is a way to do this that does not vulgarize the content of your statement but greatly increases the prospects that your constituents will understand.

*debt  
must  
be paid  
Confess*

3) What impression to leave.

Do you have a feeling for what the over-all impression of the speech should be? Grim, confident, friendly, determined? This is the kind of guidance that can help us the most.

4) What else to mention.

How much would you like to discuss foreign affairs, and in what areas?

*Foreign 1/3  
Obvious subjects - Econ -  
+ SALT, CIB, NAID, M. East  
Self-defense - police mention  
of S.A. Africa  
369 can influence*

**Electrostatic Copy Made  
for Preservation Purposes**

THE WHITE HOUSE  
WASHINGTON

December 7, 1977

Secretary Schlesinger

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

RE: INCREASED USE OF WOOD AS AN  
ENERGY SOURCE

THE WHITE HOUSE  
WASHINGTON

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

cc Gov. George Bush  
Director Ray Shirkley

ACTION	FYI	
<input type="checkbox"/>	<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	<input type="checkbox"/>	MOORE
<input type="checkbox"/>	<input type="checkbox"/>	POWELL
<input type="checkbox"/>	<input type="checkbox"/>	WATSON
<input type="checkbox"/>	<input type="checkbox"/>	McINTYRE
<input type="checkbox"/>	<input type="checkbox"/>	SCHULTZE

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to  
Carp/Huron within  
48 hours; due to  
Staff Secretary  
next day

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	GAMMILL

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input checked="" type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VOORDE
<input type="checkbox"/>	WARREN



Electrostatic Copy Made  
for Preservation Purposes

cc: Gov Busbee  
Ray Shirley  
JC

Department of Energy  
Washington, D.C. 20585

December 6, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM SCHLESINGER JS

SUBJECT: Increased Use of Wood as an Energy Source

- o You requested Ray Shirley, Director, Georgia Forestry Commission, to provide you with additional information on wood for energy. He did this and you asked me for
  - a summary of wood use and its potential,
  - the best type of home commercial wood burners
  - R&D program regarding wood as an energy source.
- o I had also requested Governor Busbee to provide me with information on the use of wood as an energy source. He has done that.

CURRENT AND POTENTIAL USAGE

- o Less than 1 percent of United States energy demand is now met by wood for home heating and electricity.
- o But four times that is used by the forest products industry for its own use -- much potential remains.
- o Direct use of wood and wood products as a substitute or replacement for oil or gas could be increased substantially -- from 1 quad to approximately 4 quads (2 million b/doe).
  - For example, this could be achieved by converting small generating plants (50-70) in eastern, southwestern and northwestern United States during the next few years. Economics are in the ballpark of current cost of electricity on eastern seaboard (30 mills/kwhr.).

#### R&D PROGRAM

- o The Department of Energy is spending \$10 M on R&D -- twice what was being spent in FY 1977.
- o For example, converting wood and wood products to liquid and gaseous fuels.
- o The Georgia Tech program that Ray Shirley talks about has been an active participant in the Federal R&D program. For example, they have been working on a wood pelletization process. The Georgia participants in the program are encouraged about the economics.

#### HOME COMMERCIAL WOOD BURNERS

- o Hundreds of wood burners are produced by moderate sized stove manufacturers in this country and overseas.
- o Trade names include Riteway, Ashley, Warmmorning, Lange (Danish).

#### IMPLEMENTATION

- o Few, if any, technological problems remain. Expanded use requires a coalition of suppliers of wood stocks and users; perhaps tax incentives might be required.
- o Support of the longer range will require "farming" of trees developed by USDA for rapid (6-8 years) regrowth.
- o Tree farms of about 50-60 million acres would be required for the long range.
- o The Department will pursue these opportunities in wood use aggressively.



THE WHITE HOUSE  
WASHINGTON  
December 7, 1977

The Vice President  
Stu Eizenstat  
Jack Watson  
Jim McIntyre

The attached is forwarded to  
you for your information.

Rick Hutcheson

INCREASED USE OF WOOD AS AN  
ENERGY SOURCE

8:55 AM

Electrostatic Copy Made  
for Preservation Purposes

THE WHITE HOUSE

WASHINGTON

December 6, 1977

MEETING WITH SENATOR WALTER HUDDLESTON

Wednesday, December 7, 1977

8:55 a.m. (5 minutes)

The Oval Office

FROM: Frank Moore *F.M./BR*

I. PURPOSE

To meet with Senator Huddleston to reaffirm the Administration's policy on tobacco price supports; photo opportunity.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: Lee Nunn, the Chairman of the Kentucky Republican Party, has announced that Republicans will run against the Senator next year on two issues - the Senator's support for the Panama Canal Treaties and his lack of support for the State's tobacco industry. We have been working on several fronts to help the Senator on the Treaties, but we should do more to help him on the tobacco question. Farmers in Kentucky are particularly concerned about the tobacco price supports. Since we favor the continuation of this program, we should provide this event after which the Senator can take some of the credit for our policy.

B. Participants: The President  
Senator Huddleston  
Secretary Bergland  
Frank Moore  
Bob Thomson

C. Press Plan: White House Photo. Additional press coverage coordinated through Press Office.

III. TALKING POINTS

1. You should reaffirm the Administration's continued support of the tobacco program administered by the Department of Agriculture. This policy was enunciated as late as October 14, 1977 by Assistant

Secretary of Agriculture, Meyer, before the Tobacco Growers Information Committee, in Raleigh, North Carolina.

2. Also, the Senator's fears should be allayed in that the Tobacco Task Force set up by the Secretary of Agriculture on August 24 has had no contact with the Smoking Task Force established by Secretary Califano. The USDA Task Force was established to review the tobacco program and determine if changes are needed to modernize the program. It is not the interest of the task force to dismantle the tobacco program.

THE WHITE HOUSE

WASHINGTON

December 6, 1977

MEETING WITH SENATOR WALTER HUDDLESTON

Wednesday, December 7, 1977

8:55 a.m. (5 minutes)

The Oval Office

FROM: Frank Moore

I. PURPOSE

To meet with Senator Huddleston to reaffirm the Administration's policy on tobacco price supports; photo opportunity.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: Lee Nunn, the Chairman of the Kentucky Republican Party, has announced that Republicans will run against the Senator next year on two issues - the Senator's support for the Panama Canal Treaties and his lack of support for the State's tobacco industry. We have been working on several fronts to help the Senator on the Treaties, but we should do more to help him on the tobacco question. Farmers in Kentucky are particularly concerned about the tobacco price supports. Since we favor the continuation of this program, we should provide this event after which the Senator can take some of the credit for our policy.

B. Participants: The President  
Senator Huddleston  
Secretary Bergland  
Frank Moore  
Bob Thomson

C. Press Plan: White House Photo. Additional press coverage coordinated through Press Office.

III. TALKING POINTS

1. You should reaffirm the Administration's continued support of the tobacco program administered by the Department of Agriculture. This policy was enunciated as late as October 14, 1977 by Assistant

Secretary of Agriculture, Meyer, before the Tobacco Growers Information Committee, in Raleigh, North Carolina.

2. Also, the Senator's fears should be allayed in that the Tobacco Task Force set up by the Secretary of Agriculture on August 24 has had no contact with the Smoking Task Force established by Secretary Califano. The USDA Task Force was established to review the tobacco program and determine if changes are needed to modernize the program. It is not the interest of the task force to dismantle the tobacco program.

THE WHITE HOUSE  
WASHINGTON

December 7, 1977

Midge Costanza

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hutcheson

cc: Landon Butler

RE: REQUESTS OF SUPPORT FROM  
PARTICIPANTS OF WHITE HOUSE  
BRIEFINGS FOR BUSINESS AND  
PROFESSIONAL ASSOCIATIONS

THE WHITE HOUSE  
WASHINGTON

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

ACTION  
FYI

<input checked="" type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input type="checkbox"/>	WATSON
<input type="checkbox"/>	McINTYRE
<input type="checkbox"/>	SCHULTZE

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to  
Carp/Huron within  
48 hours; due to  
Staff Secretary  
next day

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input checked="" type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	GAMMILL

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VOORDE
<input type="checkbox"/>	WARREN

THE WHITE HOUSE  
WASHINGTON

12/6/77

Mr. President:

Jim Fallows edited the proposed letter.

Rick



THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

December 6, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

Margaret Costanza *mc*

SUBJECT: Requests of Support from Participants of White House Briefings for Business and Professional Associations

Over the past ten months, my office has met at the White House with approximately forty business and professional associations, approximately three thousand people, most of whom were chief executive officers of companies belonging to the various associations. Such people represent the most influential components of the business and financial community.

I suggest that a letter, over your signature, go out to these attendees, requesting their support for the Panama Canal Treaties. Our office has discussed this proposal with Landon Butler who would coordinate the timing and the preparation of the informational material that could be enclosed.

My office can handle the implementation if you so desire.

Approve \_\_\_\_\_

✓

Disapprove \_\_\_\_\_

Attachment

Electrostatic Copy Made  
for Preservation Purposes

*Enclose cc:  
Memo of  
understanding  
JC*

THE WHITE HOUSE

WASHINGTON

To

At this crucial time in our history, I am seeking the support of America's leaders in business and the professions for an initiative that I feel is of the utmost importance to our country. I know of your personal interest in government, as evidenced by your presence at the White House earlier this year.

I strongly believe that the Panama Canal Treaties are fair and equitable, and that they are essential to assure the continued effective use of the Canal for American commercial and security needs.

But I think many Americans do not understand exactly what the Treaties do. Recent nationwide polls indicate that most Americans would support the Treaties if they understood that our country retained the right to defend the Canal and keep it open to ships of all nations. Some editorial comment and many letters we receive show confusion on this issue. As you know, the Treaty of Neutrality gives us that right, and the recent Statement of Understanding declares the clear intent of both signatory nations to uphold that right of the United States forever.

It is essential that the American people be given a full, factual explanation of the new Treaties, so that they understand the true effect. Along with members of my Administration and many other distinguished Americans, I will undertake this task of explaining the Treaties to the people in the coming months. I believe they will support the Treaties proudly once they fully understand the language. I urge you to join me in this effort. Help us lay the facts before the public so that, as we approach the final decision in the Senate, our Nation can unite in understanding and goodwill on this important issue. I have enclosed informational material you might find helpful.

I ask this of you in what I truly believe is our highest national interest. I need your help.

Sincerely,

WASHINGTON

# MEMORANDUM

**FOR INFORMATION:**

attested - 10 w/under

**SUBJECT:** Costanza memo dated 11/14 re Request of Support from  
Participants of White House Briefings for Business and  
Professional Associations

**DATE:** November 17, 1977

**Other:**

***Please note other comments below:***

12/5  
 called w/ LB who wanted Steve to make it part  
 of more comprehensive package. Ek w/  
 Selig. ~~He would~~ **No comment.** LB does not have  
 any more follow up. The package however,  
 but wants to go to it.  
 12/5 JSP  
 The w/ Selig who said that he & LB talked;  
 LB wanted it to be part of bigger package.  
 Steve said he tried to get back to LB, but  
 LB left town. Selig will talk w/ LB on  
 the A.M. to see if any additional  
 changes are required. I passed  
 along update Stearns got to Selig  
 & for Thane.

12/6 - w/ Seymour

**If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)**

THE WHITE HOUSE  
WASHINGTON

<input checked="" type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

ACTION	FYI	
<input type="checkbox"/>	<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	<input type="checkbox"/>	EIZENSTAT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	<input type="checkbox"/>	MOORE
<input type="checkbox"/>	<input type="checkbox"/>	POWELL
<input type="checkbox"/>	<input type="checkbox"/>	WATSON
<input type="checkbox"/>	<input type="checkbox"/>	LANCE
<input type="checkbox"/>	<input type="checkbox"/>	SCHULTZE

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input checked="" type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VOORDE
<input type="checkbox"/>	WARREN

THE WHITE HOUSE

WASHINGTON

November 14, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

Margaret Costanza *mc*

SUBJECT:

Request of Support from Participants of White  
House Briefings for Business and Professional  
Associations

Over the past ten months, my office has met at the White House with approximately thirty-five business and professional associations, approximately two thousand people, most of whom were chief executive officers of companies belonging to the various associations. Such people represent the most influential components of the business and financial community.

I suggest that a letter, over your signature, go out to these attendees, requesting their support for the Panama Canal Treaties.

My office can handle the implementation if you so desire.

APPROVE \_\_\_\_\_

DISAPPROVE \_\_\_\_\_

Attachment

Proposed Presidential  
Letter

D R A F T

THE WHITE HOUSE

WASHINGTON

date

Dear :

At a crucial time in our history, I turn to the leadership of America for support for an initiative that I feel of utmost importance to the national interest of our country.

I know of your interest in the affairs of our government as evidenced by your attendance here at the White House earlier this year. I strongly believe that the Panama Canal Treaties are fair and equitable and essential to assure the continued effective use of the Canal for American commercial and security needs.

A recent nationwide poll by CBS/New York Times indicates that Americans will support the Treaties when they understand that our country has the right to defend the Canal. By a margin of more than 2:1 (63% to 24%), Americans say they would support the Treaties if "...the Treaties provided that the United States could always send in troops to keep the Canal open to ships of all nations." As you know, the Treaty of Neutrality and the recent Statement of Understanding provide the United States this right.

It is essential, therefore, that the American people be given a full, factual explanation of the new Treaties. I, with members of my administration and many distinguished Americans, will undertake this task in the coming months. I urge you to support the Treaties and to help in laying the facts before the public so that this education process can go forward as a final decision is approached in the Senate.

I ask this of you in what I truly believe to be our highest national interest. I need your help.

Date: November 15, 1977

MEMORANDUM

FOR ACTION:  
Hamilton Jordan  
Jim Fallows

FOR INFORMATION:

*Adson*

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Costanza memo dated 11/14 re Request of Support from  
Participants of White House Briefings for Business and  
Professional Associations

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 9:00 AM

DAY: Thursday

DATE: November 17, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.☐ No comment.

Please note other comments below:

*Revision attached.*

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



59  
Date: November 15, 1977

MEMORANDUM

FOR ACTION:  
 Hamilton Jordan  
Jim Fallows

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Costanza memo dated 11/14 re Request of Support from  
 Participants of White House Briefings for Business and  
 Professional Associations

YOUR RESPONSE MUST BE DELIVERED  
 TO THE STAFF SECRETARY BY:

TIME: 9:00 AM

DAY: Thursday

DATE: November 17, 1977

ACTION REQUESTED:

☒ Your comments

Other:

*Handwritten note:*  
 HWA for CP/relly

STAFF RESPONSE:

☐ I concur.☐ No comment.

Please note other comments below:

*Handwritten:*  
 Rick -  
 I think this is sound, but could  
 be fleshed out: material could be  
 sent, for example; or it could be  
 co-ordinated with a friends chat - dis-  
 tributed info - please shell  
 for more info

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required  
 material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

To

At this crucial time in our history, I am seeking the support of America's leaders in business and the professions for an initiative that I feel is of the utmost importance to our country. I know of your personal interest in government, as evidenced by your presence at the White House earlier this year.

I strongly believe that the Panama Canal Treaties are fair and equitable, and that they are essential to assure the continued effective use of the Canal for American commercial and security needs.

But I think many Americans do not understand exactly what the Treaties do. Recent nationwide polls indicate that most Americans would support the Treaties if they understood that our country retained the right to defend the Canal and keep it open to ships of all nations. Some editorial comment and many letters we receive show confusion on this issue. As you know, the Treaty of Neutrality gives us that right, and the recent Statement of Understanding declares the clear intent of both signatory nations to uphold that right of the United States forever.

It is essential that the American people be given a full, factual explanation of the new Treaties, so that they understand the true effect. Along with members of my Administration and many other distinguished Americans, I will undertake this task of explaining the Treaties to the people in the coming months. I believe they will support the Treaties proudly once they fully understand the language. I urge you to join me in this effort. Help us lay the facts before the public so that, as we approach the final decision in the Senate, our Nation can unite in understanding and goodwill on this important issue.

I ask this of you in what I truly believe is our highest national interest. I need your help.

Sincerely,

THE WHITE HOUSE  
WASHINGTON

December 7, 1977

The Vice President  
Hamilton Jordan

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

RE: HOUSE FLOOR ACTION ON 12/6/77  
NATURAL GAS CONFERENCE

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE  
WASHINGTON

*Adm  
Camp*

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	✓	MONDALE
		COSTANZA
		EIZENSTAT
	✓	JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

**Electrostatic Copy Made  
for Preservation Purposes**

December 6, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: BILL CABLE *Bill*

SUBJECT: House Floor Action Today

Today the House considered a continuing resolution for Labor/HEW and D.C. without reaching an agreement on the abortion issue and sent the resolution to the Senate. This action leaves the absolute prohibition against the use of federal funds for abortion in the continuing resolution.

Later, the House took up the Supplemental Appropriations Bill and agreed to the amendment adding \$200 million for CSA crisis intervention which Chairman Mahon opposed and defeated the motion of Mr. Mahon to concur in the Senate provision deleting money for B-1 prototypes 5 and 6. Those actions leave us in the following position; the Senate will have to decide on, 1) the continuing resolution with or without the Hyde absolute restrictions on abortion and 2) what to do about the B-1 rescission.

I expect that the Senate will not agree to the anti-abortion language NOR to give up the B-1 rescission. Dan Tate has talked to Senator Byrd who agreed that the Senate should insist on the B-1 rescission and that we should follow up with Senator Stennis who is in Mississippi.

If the Senate does not act tomorrow, we will have another chance at both issues.

When the House Leadership agreed to go ahead with the B-1 (about 2 p.m.) the absentees looked like we would break about even, but as the day progressed we lost 30 more Members, most all our supporters. By the time the vote on B-1 occurred, there were 75 absentees, 45 to 50 of whom would have been with us on this issue. If the Senate does not send the bill back to the House tomorrow, we should have time to turn the vote around.

The President  
Page 2

In all honesty, the pro B-1 people cut into our base of support primarily on jobs and regional help issues. "I will help you with jobs in your area and I expect your help in similar situations in the future."

We can win on the B-1, but we need to make a major concerted effort to guarantee attendance as well as to pick up where we have weaknesses.

THE PRESIDENTIAL ARCHIVES

THE WHITE HOUSE

WASHINGTON

December 6, 1977

C

MEMORANDUM TO THE PRESIDENT

FROM: FRANK MOORE  
JIM FREE *Jim*  
BOB THOMSON *Bob*

RE: NATURAL GAS CONFERENCE

There was no visible movement in the gas conference today. However, we met with Senator Ford this afternoon, and he indicated he would have a proposal for us to review tomorrow afternoon. The proposal will be communicated on a highly confidential basis through Bob Strauss.

We expect the Senator to propose a moderately higher price, an expanded definition of new gas (perhaps less than the Senate bill), and certain provisions relating to roll-over contracts designed to protect the pipeline company serving Kentucky. We do not expect the proposal to contain eventual deregulation. The proposal is likely to contain restrictive provisions regarding intrastate allocation authority.

We are not discounting the possibility that this is a Johnston-Ford proposal. It would have the effect of breaking the two Democrats away from the Republican members of the "naughty nine" (as they call themselves) who are arrayed against us. Ford has said before he does not personally care about intrastate regulation. Yet, his proposal will probably contain the intrastate provisions Johnston is pushing.

The conference closed at 4:00 P.M. today with our allies on the Senate loudly proclaiming the possibility of no bill this year. We are certain that will be the news story tomorrow.

FM has not seen

Electrostatic Copy Made  
for Preservation Purposes

OK 1 32

Dis  
HI

33  
105

(Cabinet Room)

THE PRESIDENT HAS SEEN.

~~9:00~~ a.m.  
10:00

THE WHITE HOUSE  
WASHINGTON

December 7, 1977

{ ① Roth = hold down cost  
② Trigger vs Loan  
③ Disparity  
④ Welfare

MEMORANDUM FOR: THE PRESIDENT  
FROM: STU EIZENSTAT *Stu*  
FRANK RAINES  
SUBJECT: Ullman-Long Compromise on Social Security

Secretary Califano has sent you the attached memorandum outlining a compromise that Chairman Ullman says he has reached with Senator Long. They are apparently prepared to have the conference committee meet on Friday to approve the agreement and move to a vote in the House and Senate next week. I must caution you that this information must be considered tentative until we find out the details and it is confirmed by Senator Long.

The proposed compromise has several objectionable features:

-- It accepts the tuition tax credit although at a lower cost (we do not have a Treasury estimate on the exact cost). Although limited to one year, it is virtually certain that the credit will be extended and expanded in future years. The tax credit is a poor tool for providing relief to middle-class families and may only result in higher tuitions. Accepting the credit is also politically awkward since it was proposed by a Republican and they can be expected to take credit for it.

On the other hand, there is a great deal of support for the credit in the Congress. The compromise does pare the cost and it may be very unlikely that we can obtain a better deal in the conference committee or on the floor.

-- The compromise does not accept a higher wage base for the employer. Retention of this part of the Senate bill has been a priority in our lobbying effort and its elimination will be seen as a defeat.

The substantive difference between the higher wage base on employers and parity between employers and employees does not violate our commitment to attempt to keep the tax burden off low and moderate wage workers. The compromise

Electrostatic Copy Made  
for Preservation Purposes



places the burden on workers who earn more than \$20,000 per year. There is little support in the conference committee for the Senate position and the House conferees are strongly opposed to it.

- The compromise does not accept the general revenue loan authority for the trust funds should the reserves drop below 25 percent of outlays. In its place they have an automatic tax which would be triggered by a drop to the 25 percent level. This provision has many problems. First, if more pessimistic economic estimates are used, the new tax may well be triggered in the next five years. Second, the tax would tend to aggravate any economic downturn by taking money out of the economy. We are most concerned with this trigger since it can cause regressive tax-rate increases in an election year. We should be able to defeat this, or at least modify it so it is less likely to trigger tax increases

Some type of loan authority may be salvagable if we can put some pressure on Senator Long to accept it and on the House members to insist on it.

The other elements of the compromise seem acceptable, particularly the delay in any tax-rate increase until 1980.

We have very little bargaining leverage and risk losing the bill if we oppose the compromise. I am very concerned that if social security is put off until next year we may lose the bill altogether because the members of Congress will become increasingly sensitive to voting for the tax increases as the elections draw near.

We should try to get as many details of this compromise as possible before we commit ourselves, although we will have to act fast. We should talk with Long, Ullman and the Speaker to see if there is any way we can salvage the employer wage base provision or the loan provision or ditch the tuition tax credit or modify the trigger. If this is unsuccessful, we should endorse the compromise so that we can obtain the credit we deserve for achieving a social security bill this year.



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE  
WASHINGTON, D. C. 20201

December 7, 1977

MEMORANDUM FOR THE PRESIDENT  
FROM JOE CALIFANO *Joe Califano*

Chairman Ullman told me this evening that he and Russell Long were in agreement on the following elements of the Social Security package:

1. All the Social Security liberalizations to which we are opposed would be dropped.
2. The Roth tax credit would go into effect for one year, with no refundable provisions and limited to one student per family.
3. The borrowing authority would be dropped from the House bill. In its place would be a provision that triggers a payroll tax of "about 1%", if any of the trust funds dropped below 20% for one year or 25% for two consecutive years.
4. There would be no disparity between the wage base of the employer and the employee.
5. The bill would begin with the Senate wage base increases for the employee and no tax rate increases through 1980. Thereafter, the legislation would move to the House version of wage base and tax rate increases. (Ullman said that he and Russell had two different schedules on which they could operate, depending on the reaction of the Committee members).
6. Ullman says that under the Long-Ullman proposal, the trust funds would be as good or better than the position in the House bill. Under their economic assumptions, no trust fund would fall below 27% (I told Ullman that the economic assumptions underlying the proposal were prepared nine months ago and could be overly optimistic. Ullman said he was satisfied that the economic assumptions that he and Long had used were sound.)

7. The earnings limitation would rise at the rate of \$500 per year beginning with \$4,000 in 1978, up to \$6,000.

8. Ullman is willing to accept all of the welfare proposals in the Long bill to the extent that we agree with them. In return, he said, Long has agreed to go to conference on H.R. 7200 next year. Ullman told me that Corman does not want to accept any of the provisions, including the fiscal relief, and asked me to talk to Corman about those provisions. I have talked to Corman and he will take all of them because he does not want to be "the guy who stopped the Social Security bill." He is also miffed at the Blumenthal statement today that tax relief and reform come ahead of welfare reform. He says that statement, at this time, will infinitely complicate and perhaps make impossible getting quorums on welfare reform.

I told Ullman that I would have to talk to you before acting and that I did not see enough in the Long-Ullman bill of what you had proposed. Presumably, the decoupling provisions are fine. But, the bill rejects two of your principles: the disparity in the wage base between employers and employees, and the dip into general revenue at least through borrowing authority. Ullman said he could not give on the disparity because only two members of his committee favored it and he was personally opposed. He urged that we try to get Long to take a five year borrowing authority provision.

Ullman urged that we not "get involved in any heavy-handed way" because it is too late for the President or the Administration to do anything about the legislation. "We've all worked our butts off to get a Social Security bill this year and you should be grateful that there will be a good bill."

All the information about the Social Security bill comes from Ullman who was at home, when I talked with him, and who was operating from memory.

Electrostatic Copy Made  
for Preservation Purposes

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

*Susan*  
*C*

EYES ONLY

December 6, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS*  
Subject: Commerce Survey on Plant and Equipment  
Expenditures

The Commerce Department will release sometime tomorrow (Wednesday, December 7) the results of its survey of business plans for expenditures on plant and equipment through the first half of 1978. The news is somewhat disappointing.

Actual expenditures on plant and equipment in the third quarter of 1977 were revised upward substantially, which is a good sign. Planned expenditures through mid-1978, however, do not show as much strength as we had hoped for. The anticipated growth rate of those expenditures during the first half of next year is 11 percent. Adjusted for inflation, this would translate into a 5 to 6 percent increase, which is lower than the probable rise of about 8 percent during 1977. Moreover, it is somewhat lower than the investment increase we had been incorporating in our "no tax cut" forecasts for next year.

The Commerce survey was conducted in late October and November. The results are consistent with the findings of some private surveys of business capital spending plans taken earlier in the fall. Since the economy was going through a mild slump in the summer and early fall, business investment plans for next year may have been adversely affected. We might see some upward revisions later.

We will need a stronger rise of business capital outlays than what is implied by this latest survey to sustain a healthy economic growth next year. It is becoming increasingly evident that some additional fiscal stimulus will be needed during the course of 1978 to achieve our economic objectives.

12 W. M. Kirby 12/7/77

78  
2  
85 ?

THE WHITE HOUSE  
WASHINGTON

2:15 12/7  
fm Kirby

Prob in 71602

Jackson - 9 yrs & ??

API - 5 yrs

5d move

No rebate to oil (long)

=  
EPCA incentives

(Tom Danks date)

Almost impossible before Xmas

CK can come up

Q Can we get it for every day of the year?  
(Laughter)

Q June 17, '77 and September 30, '76.

MR. POWELL: All right.

Q What was it under the Harding Administration?  
(Laughter)

MR. POWELL: Would 9-30-76 suit you?

Q Yes.

Q What do you do for an encore?

MR. POWELL: I will be glad to --

Q Is the President pleased with President Sadat's avowed intentions to make a separate peace?

MR. POWELL: Which avowed intentions are you talking about?

Q He has announced whatever anybody else may want to do about Middle East tensions and so forth, he intends to make a separate peace with Israel.

MR. POWELL: I am not familiar with the particular statement. I know of no statement that -- your second phrasing was somewhat different from your first.

Q Okay. Well, I'm sorry, it's a very simple question.

MR. POWELL: So far as we know--and if President Sadat has made a statement to the contrary, I am unaware of it -- all the parties have said that their desire and their intent is to move toward a comprehensive settlement. That is obviously our desire also. With regard to how the possibility of a separate peace enters into the equation, I would simply refer you to the President's response in the press conference. I think he phrased it about as well as it could be phrased, and that is our view of the situation.

Q Did the President have anything to do with Sadat's breaking of diplomatic relations with the five Arab countries and also those on the consulates, Soviet and Eastern --

MR. POWELL: No. That was a decision made by the Government of Egypt and appropriately so that it be made by them.

Q Was the U. S. consulted at all?

MR. POWELL: I am not aware that we were.

Q On the same subject, Secretary of State Vance said yesterday developments in the Middle East may make them no longer necessary to have a Geneva Conference. That is not his exact phraseology.

MR. POWELL: No kidding. (Laughter)

Q Is the President now reconciled and ready for the abandonment of the Geneva Conference?

MR. POWELL: Certainly not. Let me tell you what Secretary Vance actually said and then you can interpret for yourself what interpretation ought to be placed on it.

Question: "Is it now conceivable in the light of American policy that there could be a settlement without a Geneva Conference?"

Answer: "It is possible, and all the parties have said it is their intention to move toward a Geneva Conference. That has been stated by Prime Minister Begin, by President Sadat and the others have indicated also their desire to go to the Geneva Conference. So that as of the moment all the parties appear to wish ultimately to go to a Geneva Conference."

Now, that does not sound to me as though it were a statement which departed in any way from --

Q Would you mind a comprehensive settlement at some place other than Geneva? What are your views on a settlement at some other place than Geneva with all the parties?

MR. POWELL: Obviously, our goal is peace. Geneva, as we have said at the beginning, is an already-established forum and it is so far the only forum in existence for a comprehensive settlement. And that is in our opinion, and always has been, the best and the most preferable ultimate outcome to this process.

Q Is the American view that Sadat's closing the consulates and ending diplomatic relations with the other Arab countries -- is it our view that is constructive toward --

MR. POWELL: I am not going to get in the process of commenting on what is strictly an internal matter for the Government of Egypt.

Q Jody, was the President disappointed at the Soviet Union's reaction to Sadat's --

MR. POWELL: I believe Secretary Vance has already expressed himself on that, and I wouldn't have anything to add to that. I think you can assume that his views generally on the Soviet role there reflected the views of the Administration. And our view continues to be that we would hope that the Soviet Union, as a permanent co-chairman of the Geneva Conference, would play a constructive role there.

Q Well, what is the U.S. view of the breaking of these diplomatic relations?

MR. POWELL: That is what I just said, that I think -- if I interpreted Judy's question right -- that is what she was asking also, and --

Q It isn't just an internal matter. It is a question of climate. Do you think it has enhanced the chances for peace?

MR. POWELL: In our view, a decision about diplomatic relations is something that a country has a perfect right to make without our interference. Obviously, we would hope that over the course of time differences among the parties there can be resolved and healed. I am certainly not going to intrude ourselves on that sort of decision.

Q Jody, so what you are saying -- this is actually very important because I think everybody came out of Vance's press conference with the very clear impression that he was downplaying Geneva, that it was a major change, that he was openly discussing trying to draw the Syrians into the process that is going on now through Cairo and et cetera, but understood there was a major break --

MR. POWELL: The Secretary made it very clear --

Q Let me finish. I think everybody said the --

MR. POWELL: Everybody may have come away with that impression. Some folks wrote it different than others, though.

Q If you would wait for me to finish. The European press also played it that way and were very upset. I want to get a definitive statement that you don't think there has been any change that affects more than the timing of the situation.

MR. POWELL: I have read the transcript and can see nothing in the transcript that is in any way a change from what the President said at his press conference.

Q What he said exactly was it was time to discuss substantive rather than simply procedural questions, specifically in Cairo. That would seem to be a change from our position that --

MR. POWELL: I would suggest you read the President's statement in the press conference, and I believe he said there would be substantive issues discussed there also.

Q What is the President doing to get his energy bill passed?

MR. POWELL: As you know, there are discussions going on both among the conferees and with the Administration officials. I can't give you a -- if you want to sit down and do a blow-by-blow on the thing I will try to accommodate you afterwards.

Q Has the President given up hope that an energy bill will be passed this year? I mean, the signs coming off the Hill --



# PRESS DEPARTMENT OF STATE



December 6, 1977  
No. 544

PC#27

NEWS CONFERENCE  
BY  
THE HONORABLE CYRUS R. VANCE  
SECRETARY OF STATE  
WASHINGTON, D.C.  
DECEMBER 6, 1977

SECRETARY VANCE: Good morning.

Before I take your questions, I'd like to make a few opening remarks about the important developments that have been occurring in the Middle East.

The President has already stated the admiration and respect of our Government for the leadership of President Sadat and Prime Minister Begin. They have broken through psychological barriers which have impeded progress towards peace in the Middle East for three decades. As a result, an irreversible process has begun. The leader of the largest Arab state has been received in Israel before the eyes of the whole world. This single act has done more than

For further information contact:

any number of words could to sweep away doubts about the sincerity of both governments in seeking an end to bloodshed and strife.

From the first days of this Administration, we -- like our predecessors -- have sought to get the parties talking directly with each other in serious negotiations. Now these two strong leaders have done just that, leaping over inhibitions of the past and procedural quarrels of the present.

Changes so fundamental inevitably stimulate a variety of reactions. There clearly are now cross-currents at work -- some bringing the parties closer together, some moving them apart. We believe our proper role at this point is to support and reinforce the former while using our relationships across the spectrum to moderate the latter. I will be seeking to do both on my trip to the area.

The President wants to be sure that all the Middle East leaders fully understand that the present Egyptian-Israeli initiatives have our full support, and that they know our support is fully consistent with our continuing dedication to the objective of a comprehensive Middle East peace settlement. We believe that all the parties to the

Geneva conference remain committed to that goal.

President Sadat and Prime Minister Begin have made a breakthrough, and we intend to help them wherever possible to enlarge that opening. They and the other leaders concerned in peace efforts have told us they want us to continue our role. In the past, when there was no movement, our proper role was to take the initiative in stimulating new ways of acting and thinking. Today, when leaders in the area are boldly moving forward, our proper role is to support their progress and help broaden it to all fronts in the continuing search for a final settlement. All the leaders have welcomed my visit, and I look forward to receiving their counsel and their views.

Q Mr. Secretary, when you say in your statement that all the parties remain committed, do you include the Soviet Union? And Mr. Habib's trip to Moscow -- is that designed, at least in part, to tell the Soviets they haven't been as constructive as we would have liked them to have been with the Syrians and the PLO?

SECRETARY VANCE: Insofar as the Soviet Union is concerned, they consider to have their responsibilities as one of the two Co-chairmen of the Geneva conference.

Some of the statements which they have made in recent days

have not been helpful; they raise questions.

I look forward to meeting with Mr. Habib when I get to Brussels, where he will report to me on his discussions with the Soviets during the last two days.

Q Mr. Secretary --

SECRETARY VANCE: Yes, Mr. Anderson.

Q -- the enthusiasm that you show for the Sadat-Begin talks seems to be somewhat tardy. There was a long pause in this capital when they started. Has this in fact represented a reassessment of American policy? Particularly, is it now conceivable that there could be a settlement without a Geneva conference?

SECRETARY VANCE: Let me first address your question of being tardy. As soon as the statement of the Cairo conference was made, we indicated that we believed that it could play a helpful role but that we wished to consult with all of the parties. We did that consultation over the weekend and made a statement, which I think was clearly a very positive statement, on Monday following our consultations.

We do, as I have indicated, support very strongly this initiative. We believe that it can be a stepping stone

towards peace, and we shall do all that we can within our power to help support that effort as it moves forward.

Q Can I get to the second part of that, please?

SECRETARY VANCE: Yes.

Q Is it now conceivable, in the light of American policy, that there could be a settlement without a Geneva Conference?

SECRETARY VANCE: It is possible, but all of the parties have said that it is their intention to move towards a Geneva conference. That has been stated by Prime Minister Begin, by President Sadat, and the others have indicated also their desire to go to a Geneva conference. So that as of the moment all of the parties appear to wish ultimately to go to a Geneva conference.

However, we have first the Cairo conference, and we have to see how much can be accomplished during the Cairo conference. I hope that much can be accomplished during the Cairo conference.

Q Mr. Secretary --

SECRETARY VANCE: Yes.

Q -- when you say "all the leaders have welcomed my visit," are you saying that Syria has accepted receiving you?

SECRETARY VANCE: Yes, they have, and they have said they welcome the visit.

Q Is there any reason to think that Syria would see the Cairo conference as a step on the way to a Geneva conference? Any communications or any actions by Syria that would --

SECRETARY VANCE: No. I have nothing at this point that would indicate that. Indeed, the indications as a result of the statement which was made at Tripoli yesterday would indicate the contrary. However, the Syrians have indicated they welcomed my visit to discuss the issues. They have never said that they close the door to a Geneva conference and an ultimate settlement, and I look forward to my discussions with President Asad to find his views as to how he believes one should proceed from here.)

Q Breaking the psychological barrier would be

a guarantee to bring peace to the Middle East?

SECRETARY VANCE: I think the breaking of the psychological barrier is an historic event. I think, as I said, I believe at my last press conference, that the principal obstacle to peace was the psychological barrier that existed as the parties moved forward and came closer and closer to serious face-to-face negotiations; and I think by the steps which were taken in, President Sadat's trip to Jerusalem and by his reception there by Prime Minister Begin and the Israeli people, that a barrier really was broken and that a sea change was effected that will have events following upon them in a fashion which is irreversible.

Mr. Kalb?

Q Following up on that, sir, have the recent developments in the Middle East shaken, challenged or changed any of the basic assumptions and direction of Administration policy?

SECRETARY VANCE: Mr. Kalb, we have always, as I indicated -- as did our predecessors -- strived for the objective of bringing the parties face to face in negotiations. We have said, as did our predecessors, that the only way there could be a solution was for the parties to

negotiate that solution themselves. Therefore, I believe that the steps which we are seeing now in terms of face-to-face negotiations are of fundamental importance, and I hope that that circle of face-to-face negotiations will be widened and that others will join.

SECRETARY VANCE: Mr. Marder?

Q To pursue that a bit further, does that not change the original nature of the Geneva conference as a meeting place to stimulate face-to-face negotiations, where in fact you have them started now; and does that not change the process in terms of the necessity for the immediacy of a Geneva conference to be a launching pad for talks, whereas you have the talks going on now?

Can you expound on that?

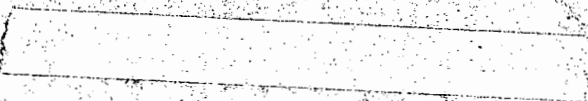
SECRETARY VANCE: I'll be glad to expound on that.

The process of serious discussions could have started at Geneva had the parties been willing to do so. It can also start in the Cairo discussions in the circumstances that now exist.

Now, I think that we should seize any opportunity and we should not concern ourselves about the forum in



which the peace process starts to enter upon serious discussions and that, therefore, with this new initiative having been taken, we should support it; and we would hope that others would join in the process, as I've indicated, as it moves forward.



Q If I may follow that up, does this raise a possibility of a sequence of conferences like Cairo, or extensions of Cairo, which could take place before there would be a Geneva conference for the purposes of formalizing an agreement?

SECRETARY VANCE: I think it is too early to say exactly what the length and form of the Cairo conference will be. That will be up to the parties, once the discussions get under way. They have put no time limits on that particular conference, but they have stated that this was preparatory towards a Geneva conference.

SECRETARY VANCE: Yes, Mr. Valeriani?

Q Two parts: One, with the principle of direct talks now established between Israel and an Arab country, what do you see as the future role for the United States, if any? And secondly, in that connection, on this trip, why do you feel that you have to go out personally? I mean, do you doubt that the Middle East leaders fully understand that you strongly support the present Egyptian-Israeli initiatives and that they know your support is

fully consistent with continuing dedication to --

SECRETARY VANCE: Your first question is which?

Q With the principle of direct talks now established, what do you see as the future role for the United States?

SECRETARY VANCE: The role for the United States at this point, as I indicated in my opening statement, I believe is to be supportive and facilitate the direct talks which are getting under way in the Cairo conference, and to work with the parties to help them move forward in their direct talks.

As we go along, they may wish us to play a greater role, and if they do, we are prepared, of course, to help in any way to move the peace process forward. In respect to the second half of your question, why do I feel it necessary to go out to the Middle East at this time, both the President and I feel that there is no substitute for face-to-face conversations, direct talks with the leaders of the various nations involved; and we think this is particularly important at this time when there is a blockage of communications between the

various leaders and that perhaps we can play a facilitating role by keeping all of those channels of communication open.

Yes, Mr. Wallach?

Q Mr. Secretary, on your last trip -- in fact, I think on your two previous trips -- you asked for and received drafts, in effect, of peace treaties, at least from the Israelis, and to a lesser extent in outline form, from the Egyptians. Do you feel that that process contributed to the breakthrough, and will you on this trip be asking the Jordanians, Syrians, or any of the other parties to put together in any kind of draft form what they feel an ultimate peace treaty should look like?

SECRETARY VANCE: During my last trip, I asked all of the parties to provide us with drafts of peace treaties or with memoranda reflecting the essential elements of a peace treaty as they saw it. We did receive from each of the countries either a draft peace treaty or their views with respect to the essential elements of a peace treaty or treaties. I think that they have been helpful, and at this

point I don't think that there is any need for us to ask for further work on their part, but we will undoubtedly be discussing their current views with respect to the elements of peace treaties.

Q Mr. Secretary, is it your intention when you meet with President Asad to try to convince him or one of his representatives to participate in the Cairo conference, and if not, what format do you see the Syrians becoming involved in, in the future?

SECRETARY VANCE: We have made clear to all of the parties that we would hope that they might find it possible to participate in the Cairo conference. As you know, a number of the countries have declined to do that. We hope that they will keep an open mind. I think it will be helpful to discuss with each of the leaders their views with respect to how one should proceed in light of the current situation, and I would hope, in my conversation with President Asad, to receive his views as to how he thinks one can best proceed to keep the process of peace moving forward.

Q Do you have any notion of your own, any particular framework of your own, that you would like to

suggest if in fact he is adamant about not going to Cairo?

SECRETARY VANCE: First, I think we ought to see what the parties themselves can develop on this. If they run into roadblocks on this, then, as I've said and the President has said, new initiatives might be helpful, then we would be willing, should the parties desire it, to come up with some suggestions of our own.

Q Mr. Secretary, have recent developments in South Africa, particularly the Biko verdict, had any effect on our continuing review of policy toward South Africa, any change in our relations expected now?

SECRETARY VANCE: You're talking about South Africa itself?

Q South Africa, the country, yes, sir.

SECRETARY VANCE: Insofar as South Africa itself is concerned, during the election campaign which was recently finished, there were statements by the government that they intended to take certain actions in the post-election period which dealt with the problem of apartheid. We shall be watching to see what happens under these

circumstances, and of course, it's too early to say yet what if anything may come out of this process. But I think it would be premature for me at this point to speculate what may eventuate from the South African Government.

Q Can you tell us the current status of our thinking on economic relations with South Africa?

SECRETARY VANCE: Our current thinking is that this matter is under review in the United States Government, as I believe I indicated to you earlier, and there have been no final conclusions reached.

SECRETARY VANCE: Yes, Mr. Gwertzman?

Q Just to follow up your earlier statement about the Soviet statements, you said that their recent comments have raised questions. Is it fair to surmise that their comments have raised questions about their living up, if not to the letter, to the spirit of the Soviet-American statement of October 1st?

SECRETARY VANCE: Well, they have raised questions about what their ultimate objectives are. We still believe their ultimate objective is to see a comprehensive settlement



of the Middle East problem, and to work as co-chairman to that end. That is one of the reasons that, as I say, I will be looking forward to the reports of Mr. Habib's discussions in Moscow to get the latest thinking which he will have received as a result of those talks.

Q Mr. Secretary, could you please give us your assessment of the Saudi role right now and their attitude toward the Cairo conference, as you understand it?

SECRETARY VANCE: It would be inappropriate for me to speak specifically for the Saudis. That is clearly up to them to do. In the past, they have played a very constructive role in connection with the Middle East problem and in seeking to facilitate a solution to this problem, and I would hope that in the future, they would continue to play such a role.

SECRETARY VANCE: Yes, sir?

Q Do you believe that the appropriation for the State Department is so ample that you can overlook Mrs. Abzug's Commission's defiance of a State Department directive that they




stop using your franking privilege for thousands of dollars a month?

SECRETARY VANCE: With respect to that, Mr. Read talked to the Commission and indicated to them that they should use their own franking privilege. It is taking a while for them to do that. They will do it -- I have no question about it. It simply has not reached the point where they can do it.

Q Mr. Secretary, about a month ago, it was announced the United States would return the Crown of Saint Stephen to Hungary. Since then, there has been some opposition to that and apparently some delay. Even one Congresswoman said that she had been told at the White House that certain conditions would be put on this, and I wanted to know if it is definitely going to be returned, and if there are any conditions, what they are.

SECRETARY VANCE: The decision to return the crown is a firm decision. We have been holding the crown in safekeeping. We believe that the time has come when the crown should be returned. There have been a number of

improvements in the relationships between our country and Hungary. They are seen in the area of the reunification problems; they are seen in the complete repayment of the debts which arose out of World War I; they have been seen in cultural, scientific, and technical agreements which have been negotiated with them; and we believe that it is appropriate under the circumstances to return it.



Q Following that up, is there any chance that we will negotiate a trade agreement with Hungary if it should be returned?

SECRETARY VANCE: That is a question which is not yet ripe for discussion.

Q Mr. Secretary, the new American enthusiasm for direct talks between Israel and the Arab states put the United States in diametric opposition to Syria, which has stated that it wants talks only in the context of Geneva and does not want direct talks.

SECRETARY VANCE: First, let me take issue with your statement "the new enthusiasm". We have been urging direct talks from the outset and there should be no question about that. That is not a new policy with us. That has been a consistent policy of the United States.

Now, you ask, "Has that put the United States and the other parties in conflict with Syria?" Syria has not indicated whether or not they would enter into direct conversations. What they have been raising questions about up to this point is the question of the forum in which any such talks would take place.

Q Mr. Secretary, are you hopeful the Congress

would approve an increase in military aid, including compensation aid to South Korea, in light of the Park regime's lack of cooperation with the U.S. in the Congressional bribery scandal and repeated human rights violations in South Korea?

SECRETARY VANCE: When the question of assistance goes to the Congress I hope that it will be acted upon affirmatively. I would have to be very clear, however, in saying that such things as the Tongsun Park affair and some of the recent actions in the civil rights area, the human rights area, cannot help but have an eroding or negative effect upon the attitudes within the Congress, and I think generally within the United States.

Q Mr. Secretary, you are going to be talking to Foreign Secretary Owen the day after tomorrow --

SECRETARY VANCE: Yes.

Q -- on the Rhodesian situation?

From all appearances the Anglo-American plan is dead as a doornail and the play has been taken in Rhodesia by Ian Smith in his proposals for an internal settlement.

I wonder if you could share with us some of your thoughts about where we go next.

SECRETARY VANCE: Yes. I would be glad to.

I will be meeting with Secretary Owen at the Brussels meetings on Thursday and Friday and we will be discussing the question of southern Africa, including the Rhodesian situation. Mr. Moose, the Assistant Secretary for African Affairs, will be with me during those discussions.

I think in talking about this problem it is important in dealing with such a complex situation to keep some basic points in mind.

The only way, we believe, to resolve the problem peacefully and rapidly is through agreement on free elections open to all of the parties.

Secondly, by the transfer of power to a government freely chosen by the people of Zimbabwe.

Third, a constitution that protects the rights of all of the people of that country, whether they be black or white.

This will require that the transition agreements be fair and that they not favor any one group.

These are the goals that lie at the heart of the Anglo-American plan, and that plan we are continuing to pursue.

Now, coming to Mr. Smith's initiative, the Smith plan may be a step in the right direction, but it doesn't apparently provide for the kind of open elections that all parties will find fair. It is not yet clear whether it really provides for universal suffrage for all adults within the country.

So that there are a number of questions that one has to find the answer to in order to determine how this fits into these essential areas which are so important.

A number of the nationalist leaders have already indicated that they are taking a look at the Smith proposals in the light of and in the framework of the Anglo-American proposal. So, that remains on the table and remains active and supported by both ourselves and the British.

Q Mr. Secretary, how great a setback has been dealt to the prospects in the longer term of an overall settlement and a broader peace conference by the fact that Egypt has broken relations with Syria, another one of the major parties, and may be on the verge of breaking relations with the Soviet Union.

SECRETARY VANCE: I think it was too bad that President Sadat was forced to break relations with the

five Arab nations. It is our hope that in time those differences may be healed, particularly insofar as Syria is concerned, and we would hope that all of the parties to the Middle East conference, or the Middle East situation in terms of the confrontation states, would keep an open mind and that the channels of communications may again be open so that there can be movement by all towards a final settlement.

Q Mr. Secretary, the time has come for Israel to make some move on the substance and for someone to say what will be supported?

SECRETARY VANCE: Yes. I think that the time has come, and I think that the parties agree that the time has come, to really begin to come to grips with the question of substance and not merely with the question of procedures alone.

I think everybody knows what the questions of substance are that have to be dealt with. They are the

nature of peace, they are the question of withdrawals from occupied lands and they are, of course, the Palestinian question; and these issues are going to have to be dealt with in connection with any discussions which could lead to a comprehensive peace, and I think the parties are saying, both Israel and Egypt, that they recognize that these issues have to be dealt with.

Q Mr. Secretary, there have been political executions in China. I wonder if the United States is still concerned about the situation, human rights situation, in mainland China.

SECRETARY VANCE: Yes. The United States is concerned about the human rights situation in any part of the world where there are executions. The information which we have with respect to that particular situation is limited and that is all I can say at this point on it.

Q Mr. Secretary, if the PLO were also invited to the Cairo meeting, are you intending to meet with them and, if not, how are you going to get them to the Cairo meeting?

SECRETARY VANCE: No. I am not intending to meet with the PLO. As I have said to you many many times, as



a result of the commitments which we made in the Sinai II Agreement, we cannot speak with the PLO unless certain conditions are met. Those conditions have not been met. There is no indication that there is any intention to meet those conditions. So, I do not expect to meet with the PLO.

Q Mr. Secretary, can you now give us any kind of a framework for when you expect to get a Geneva conference going? I take it the first of the year is out.

SECRETARY VANCE: No, I can't give you any speculation or guess on that and I don't think it is that important. I think the important thing now is to see how much progress we can make at the Cairo conference. That is what is on the table now. Let's see what we can do and see how we can move ahead there.

Q If I might follow up on that, would you say that the events of the past days, what with the sharp disagreements amongst the Arabs, have led us closer or further away from Geneva?

SECRETARY VANCE: I think for the moment they have probably led us further away. On the other hand, I would hope that as time passes that changes will be effected and that the circle of those discussing the peace process will be enlarged again.

Q Mr. Secretary, I think it is safe to say now that there won't be a Geneva conference before the end of the year, and I think we would appreciate your

reflecting backward and telling us what in your mind prevented a Geneva conference? As you look back, what one thing or several things?

SECRETARY VANCE: As I indicated, I think that one of the main stumbling blocks was the psychological stumbling block, and that, I think, has been removed.

Secondly, there were still two procedural problems that were holding up a Geneva conference, and it was not possible up to the present time to work out those different views with respect to those procedural points, and those were the basic factors that made it impossible at this time to go to a Geneva conference.

Q Mr. Secretary?

SECRETARY VANCE: Let me answer a question here.

Q Has the political importance of the PLO been reduced by President Sadat's various actions?

SECRETARY VANCE: It seems to me insofar as the PLO is concerned that the actions which they have taken recently indicate less of a willingness to consider, in a way which might make it possible for some sort of participation, for that to happen, and so I don't think it seems likely now that that is a --

Q Can the Palestinian issue be settled

without the PLO's involvement?

SECRETARY VANCE: I think that the Palestinian issue must be solved. As to exactly how that will be solved, I think we would want to look and see what the parties themselves suggest on this. I don't want to pre-judge what is going to be put forward by any of the parties with respect to this issue.

Q Mr. Secretary, you said progress should be made, you should work toward progress at the Cairo conference. Since the only parties there other than the UN observer are Israel, Egypt and the United States, what is the nature of progress that you would like to see?

SECRETARY VANCE: I would hope that out of the Cairo conference it might be possible to come up with a framework of the substantive matters that have to be dealt with in order to achieve a comprehensive settlement; and in addition to that, the remaining procedural questions might be cleared away. I think if that were accomplished, then there would have been real progress.

Thank you very much.

\* \* \* \* \*

THE PRESIDENT HAS STEW.

THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

C

December 7, 1977

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze <sup>CLS</sup>

Subject: Friday morning meeting with your economic advisors

I suggest that we spend the bulk of the meeting on potential anti-inflation policies, especially the alternative ways of trying to get moderation in private wage and price behavior.

Attached is a CEA paper which describes all the live options, with respect to both substance and procedure. The paper has been sent to all the participants in the meeting. It does not represent a consensus, but I think it fairly lays out the pros and cons. (One of the major problems is that everything has a lot of powerful cons.)

Attachment

Electrostatic Copy Made  
for Preservation Purposes

December 7, 1977

OPTIONS FOR DEALING WITH INFLATION

*Burns*  
*Public statements*  
*Sales tax*  
*Budget balance*  
*Consult & Congress*  
*Bu/Labor*

We have yet to come up with an effective strategy for dealing with inflation. An effective program must be in place and functioning before inflationary pressures begin to worsen, and must therefore be developed relatively soon.

All of the choices open to us at this juncture are difficult ones. This paper lays out the pros and cons of the major alternatives that do have some promise, as the basis for discussion.

I. NATURE AND SIGNIFICANCE OF THE PROBLEM

The underlying rate of inflation (the rate of price increase excluding changes in food and fuel) has been running in the range of 6 to 6-1/2 percent since the middle of 1975. Volatile movements of food and fuel prices have, for some short periods, caused the actual rate of inflation to be above or below the underlying rate. For example, during the first half of the year, consumer prices rose at an annual rate of 9 percent -- largely due to rising food prices. Since midyear, the annual rate of increase has been only 4 percent -- largely, though not entirely, because of relatively stable food prices. Wholesale prices for finished producer and consumer goods, excluding food, have increased at a 6.8 percent annual rate since June.

The recent, rather good, performance of consumer prices does not mean that underlying inflationary pressures are easing. On the contrary, if the inflation rate moves out of the 6 to 6-1/2 percent range in the next couple of years, it will more likely move up than down for several reasons:

- . o A number of specific government programs (energy, social security, unemployment insurance, the minimum wage increase) are adding to costs and prices.
- o Agricultural prices are unlikely to go any lower and could increase sharply if weather conditions are adverse.
- o Other shocks to individual commodity prices may develop that we cannot now foresee. World market conditions for industrial materials are relatively depressed. But the risks of increases in such prices outweigh the prospects for declines, if world economic activity picks up.

- o Non-union wages have been rising at about a 1 to 2 percent slower rate than union wages in the past several years. As unemployment declines there is a danger that these wage increases will accelerate.
- o A new round of large union contracts will begin in 1979. If they come in at the recent 9 to 10 percent rate, then the inflation pattern would be set for the subsequent three years.
- o The current inflation is sustained by a momentum of wage and price increases that are perceived as catching up or maintaining parity with others. Expectations of continued inflation at the current rate, or a higher rate, are widespread. In this environment, it is easy to trigger actions leading to more inflation and hard to induce actions that moderate inflation.

The Administration has set for itself ambitious economic objectives for 1981. If we succeed in reducing the unemployment rate to 4-3/4 percent by 1981, labor markets will be markedly tighter than they are today, and wage rate increases will be tending to accelerate. Slack industrial capacity will also be reduced to minimal levels, so that efforts to pass cost increases through to higher prices, or to enlarge profit margins, will more readily succeed.

If we do not bring down the underlying inflation rate from its present 6 - 6-1/2 percent level before we return to a relatively high-employment economy, the rate of inflation will very probably increase. We do not know precisely when this will occur. Even if the economy grows strongly, acceleration of inflationary pressures may not be noticeable before late 1979, or early to mid 1980. But the danger zone is unlikely to be much further away than that.

A significant acceleration of inflation will pose a serious threat to the continuation of healthy expansion.

- o Business and consumer confidence would be eroded.
- o Interest rates would increase sharply because the Federal Reserve would almost certainly -- and properly -- apply the monetary brakes.

- o The stock market would be affected very adversely. This would increase the costs of funds to business firms and reduce consumer wealth.

Any steps we can take to reduce the expected rate of price increase over the next few years would greatly enhance our chances of maintaining a strong and durable recovery. Such steps would also be perceived by the public as very beneficial to their own economic and financial well-being. The public still regards inflation as the nation's principal economic problem.

The Federal Government can make a substantial contribution to reducing the potential for inflation by making sure that its own actions do not aggravate the problem unnecessarily. Some actions taken by the government -- for example, to increase energy prices -- are absolutely necessary. Others -- such as increases in payroll taxes to restructure the financing of social security -- may be unavoidable.

It is crucially important to make sure that the effects on inflation of every major change in governmental policies are carefully evaluated. Steps to avoid aggravating inflation are not enough to deal with the present inflationary problem, however. But even without any further government mandated cost increases, the rate of inflation is likely to worsen as we return to a higher employment economy.

#### Timing of New Anti-Inflation Program

It would be highly desirable to have a new anti-inflation program in place in early 1978.

- o Next year, the calendar for collective bargaining agreements is unusually light. A new effective program might have a good chance of reducing the rate of increase of prices, and also of wages in the non-unionized sectors.
- o In 1979, the schedule of collective bargaining settlements is fairly heavy. A new round of major settlements occurs, beginning with trucking and autos. These settlements will set a pattern for the next round of settlements, in 1980, when the schedule of union settlements is also heavy. If progress could be made in reducing the rate of inflation in 1978, this would help to hold down union wage increases in 1979 and beyond.



For reasons outlined below, however, the prospects for developing an anti-inflation program without the use of some form of tax incentives are not bright. If we expect to rely on tax incentives to help curb inflation, however, it appears to be too late to get a program in place during 1978. Use of the tax system to help fight inflation in 1978 could jeopardize plans for tax reform and create serious difficulties in getting the fiscal stimulus we need to keep the economy moving strongly forward next year.

## II. OPTIONS FOR AN ANTI-INFLATION PROGRAM

1. Use of the tax system to create incentives for private actions to reduce inflation, or to reduce costs and prices directly.
2. Variants of a more traditional incomes policy, in which business and labor are encouraged to moderate wage and price demands in their own and the national interest, within a framework of voluntary standards or guidelines.
3. A sectoral approach, in which inflationary problems in particular sectors are dealt with individually, without overall guidelines or standards for wages and prices.
4. Do nothing, but seek to avoid any serious threat of a renewed outbreak of inflationary pressures by maintaining an appropriate degree of slack in labor and product markets.

### Option 1

There are several ways in which the tax system could be used to reduce the rate of inflation. Among those we have studied, two appear to be most promising.

- A. Provide a tax credit of, say, 1 percent of the first \$25,000 of earnings to employees of employee units that agree to hold their wage and fringe increases below 6-1/2 or 7 percent. Such a program would cost approximately \$10 billion for a one year effort.
- B. Increase revenue sharing grants to states in return for an agreement to reduce or eliminate their general sales taxes. A program could be designed to allocate about \$10 billion in Federal revenues for this purpose.

*\$250/  
person*

### Option 1A

Wages and private fringes are presently increasing at an annual rate of around 8 percent. (Increases in the minimum wage and in unemployment compensation and social security tax rates levied on employers will add another 0.9 percent to payroll costs in 1978.) If workers accepted a 1 percent smaller increase in their wages in return for a 1 percent tax credit, business costs increases would be smaller. By reducing cost and price increases in one year, it might be possible to reverse the momentum of the price-wage spiral and change expectations about the future level of inflation.

### Advantages

- o Is a voluntary program that does not entail arm-twisting.
- o Creates incentives for individuals to act in the national interest, and enhances the chances of success.
- o Would probably be effective without comparable treatment on the price side.
- o It can be administered through the withholding tax system. COWPS believes the administrative problems would not be severe for IRS. Treasury thinks they would be substantial.
- o Could be used on a one-time basis or repeated if desired.

### Disadvantages

- o Creates windfall gains for workers whose wage increase would have been below 7 percent in any event.
- o A tax credit would be insufficient to induce compliance on the basis of incentives alone. Foregoing a 1 percent wage increase in one year implies losing the higher wage in subsequent years. But the tax credit is for one year only. Workers prefer a steady stream of higher wages to a one-time tax credit. Therefore, we would still have to appeal to the national interest to try to gain widespread adoption of the plan.

- o Involves potentially large revenue losses whose magnitude is determined by private decisions. Estimating the size of the loss would be difficult. This complicates fiscal policy planning somewhat.
- o May not be saleable without a comparable program for prices.
- o An unconventional approach which will require imaginative effort to sell to Congress.
- o Because it is novel and controversial, it would have to be proposed as a separate Stage II of the tax proposal, to be taken up after the committees had finished the main package. It could not be applicable until 1979.

#### Option 1B

Forty-five states and the District of Columbia have sales tax rates of 2 percent or more. If these tax rates were reduced about 1-1/2 percentage points, the revenue loss would be about \$10 billion and could be made up through enlarged Federal revenue sharing. Sales taxes enter directly into consumer prices. A 1-1/2 percentage point reduction in sales taxes would reduce the overall level of consumer prices directly by around 3/4 of 1 percent -- and ultimately somewhat more, as lower prices would help to hold down wage increases and business costs.

#### Advantages

- o Would have an immediate and very visible effect on prices.
- o Would probably be supported by business and labor groups, and also by the general public.
- o Has a good distributional impact: sales taxes are regressive.

#### Disadvantages

- o Has a one-shot impact on the price level that will be reversed if the program is ever terminated.

- o May elicit strong opposition from state governments who would have to take the political heat of raising sales taxes if the program were terminated.
- o Would have to be done for a two or three year period as a minimum. States would have to agree to refrain from raising sales taxes for that period. Abandonment of the program might then prove difficult or impossible.
- o Penalizes states that have excluded food and drugs from their sales taxes. 6a.
- o To be equitable, requires some form of compensation for states that have no sales tax.
- o Requires detailed negotiations with individual state governments. May be difficult to put into place quickly.
- o Grants would show up as expenditures, not tax cuts. Federal expenditures as a proportion of GNP would be increased -- working against budget objectives of the Administration.

Options 1A and 2A both would work to reduce inflation, and at the same time they would act to stimulate the economy by adding to real disposable income and by lowering interest rates. Injecting additional stimulus through this avenue encourages economic expansion while reducing the rate of inflation. Both methods, however, add substantial complexity to fiscal and budgetary planning.

#### Option 2

Traditional incomes policies rely on moral suasion, rather than incentives or direct effects on prices, to achieve their objectives. Such policies, if they are to be effective, require a large amount of governmental "jawboning."

Each of the several possible forms of traditional incomes policy has its advantages and disadvantages relative to others.

#### Option 2A: Numerical guidelines

Under this option, a specific numerical guideline would be set for wage increases. Exceptions would be provided for particular circumstances -- e.g., abnormally low wage increases in recent years, shortages of labor in a particular industry, etc. To be at all meaningful the 1978 guideline for wages and fringes would have to be set at the 6-1/2 or 7 percent level. Less would be unrealistic; more would do very little good. Price guidelines would also be set, providing for price increases no greater than cost increases -- again with exceptions. Since 1978 is a year with few large union contract negotiations, the major target would be employers with respect to both their non-union wage and their price increases. The program would be similar to the guideposts used during the Kennedy and Johnson Administrations, allowing for the very different inflationary history of recent years.

#### Advantages

- o May serve an important educational function by explaining the link among wages, productivity, and prices.
- o Is easier to understand than the "deceleration" standard discussed below.

#### Disadvantages

- o Involves a "cost passthrough" approach that could weaken incentives to restrain cost increases.
- o Will be viewed as anti-labor.
- o Does not reflect the diversity in economic conditions across industries or disparities in the wage structure. Exemptions to deal with this problem reduce the program's effectiveness.

#### Option 2B: Deceleration standard

A deceleration standard would focus on the achievement of some deceleration of wages and prices in each market relative to a base period, either 1977 or the average of 1976 and 1977. Again, since 1978 is a year of few major union contract negotiations, this standard would principally

be addressed to employers, urging them to reduce the increase in their costs, and to reflect this reduction in their prices.

#### Advantages

- o More palatable than a single guideline.
- o Makes each firm responsible for its own cost rather than focusing on cost passthrough.
- o Allows for some reflection of differences among industries in productivity and input price trends.
- o Allowances or exceptions required for unusual cases would result in relatively small loss of impact.

#### Disadvantages

- o Effective monitoring requires high administrative costs, particularly for tracking wage compliance.
- o Application now would be unfavorable to the non-union sector, since union wage rates have gone up faster than non-union wages in recent years.

We have been warned by academic and business economists, as well as by business and labor groups, that a weak program would be of no avail, and that a program with a strong governmental intervention would be widely viewed as the first step toward mandatory wage and price controls. If a voluntary restraint program were so viewed, it might well have a seriously adverse effect on investment and on the prospects for maintaining a strong economy. Hence the only way to make such a program work, without leading to adverse consequences, would be to secure public endorsement of it from major business and labor leaders. This would be hard to secure; if it is at all possible, the President would have to be involved (see below).

Whatever the form of wage-price guidelines, it would be necessary to supplement an initial general statement with specific followup discussions with particular industries throughout the year. Several major "defeats" -- i.e., price or wage increases well beyond the standards -- could wreck the whole effort. Consequently, it would probably be

necessary, if such threats occur, to invoke Presidential intervention. Staff work would be done by COWPS (who would need some additional personnel). A significant amount of the time of the Secretaries of Treasury, Commerce, and Labor and the Chairman of the CEA would be involved.

Option 2C: Insurance against real income losses

This option is a combination of a traditional incomes policy with tax incentives. "Insurance" would be provided against the risk of real income losses for workers in employee units that agree to hold increases in wages and private fringes below a stipulated standard -- 6-1/2 or 7 percent. If inflation exceeds a stipulated rate, those who sign up for the program receive a one-time tax refund. If the degree of participation in the program is extensive, wage costs will be held down, and the benefits will accrue in the form of reduced inflation.

Advantages

- o No immediate budget costs; budget costs are inversely proportional to success in holding down inflation.
- o Easy to administer and terminate.
- o Minimum of interference with market forces.
- o More responsive to concerns about the current dispersion of relative wage gains than a deceleration standard.
- o Can be continued or discontinued without undue difficulty.

Disadvantages

- o Will be viewed as a disguised form of guidelines.
- o Budget exposure a matter of probabilities. This makes it hard to sell to Congress, and it complicates budget planning.
- o An unconventional approach which will require more imaginative effort to sell to Congress and the public.

- o Incentives are not great enough to encourage widespread participation.
- o May be viewed as a gimmick with little hope of success.

### Option 3

In a sectoral approach, a limited number of industries would be isolated for special efforts -- coordinated with business and labor -- designed to decelerate inflation in those sectors. The composition of sectors would change over time as the sources of inflation varied. Tripartite labor-management-government committees could be set up in the relevant industries as one means of carrying out this approach.

Other government efforts could simultaneously be addressed to structural problems (e.g., manpower programs, collective bargaining structural changes, anti-trust policies).

### Advantages

- o Avoids explicit guidelines.
- o Would be more palatable to the private sector than most voluntary policies.
- o Reflects an awareness of the diverse nature of the inflation problem.

### Disadvantages

- o Unlikely to make a major dent in the inflation rate in the next several years.
- o Effective anti-inflation efforts hard to carry out on a highly disaggregated level -- the impact on inflation of a particular action is small while the impact on the specific group affected is large.
- o One industry is not likely to make a major effort unless it is adhering to standards that other industries are also asked to observe.
- o Might be viewed as another toothless anti-inflation policy.



#### Option 4

Under this option we would do nothing to affect private wage or price behavior. Failure to adopt any anti-inflation program now or in the near future would mean that the Administration had decided to rely principally on aggregate demand management -- on monetary and fiscal policies -- as its principal weapon to control inflation. In effect, the Administration would have to stand ready to back away from achieving its long-term economic objectives if inflation threatened to reaccelerate in late 1979 or 1980. Public recognition of that fact might be delayed for awhile, but it could not be put off indefinitely.

#### Advantages

- o The business community would probably be relieved to learn that no anti-inflation program involving arm-twisting was being contemplated.
- o Cautious monetary and fiscal policies might produce a prolonged recovery, albeit at relatively slow growth rates and very modest declines in unemployment.
- o Discontent with high rates of unemployment and slack markets might eventually improve the prospects for voluntary cooperation to reduce wage and price increases.

#### Disadvantages

- o The economic and social costs of this approach would be very high.
- o Ultimate success in controlling inflation is highly uncertain.
- o There would be strong protests from some constituent groups that the principles of the Administration had been abandoned.
- o Slow growth of the U.S. economy would have an adverse effect on the health of the world economy.

### III. HOW TO PROCEED

(However we proceed with respect to encouraging moderation of private wage and price behavior, the Federal Government must proceed to keep its own house in order, minimizing inflationary actions of its own. This requires a vigorous prosecution of the Regulatory Analysis Program and the further anti-inflation monitoring effort discussed at the last Cabinet meeting by Secretary Marshall.)

Whatever its ultimate merits, the direct use of tax reductions as an inducement to labor to reduce wage increases cannot realistically be incorporated in the tax reform package that goes to the Congress next January. Trying to secure its passage could substantially delay the tax bill. Conceivably, it could become a second package, to be considered after the tax reform bill passed, and taking effect in 1979.

This leaves several alternative approaches, some of which could be combined.

1. Abandon any attempt either to use taxes or guidelines as a means of moderating inflation.
2. Add to the Treasury package a \$10 billion program of grants to states to be used for sales tax reductions. This requires immediate consultations with governors, and key Congressional leaders.
3. The President calls in, separately, a group of key business leaders and labor leaders (who would have earlier had discussions with the appropriate Cabinet members). He tells them:
  - A. He has decided to propose a tax cut of moderate size. It would be highly desirable to provide even further stimulation to jobs and profits through a larger tax cut. But the possibility of later inflation acceleration makes this very difficult. We simply must find a way to deal with the problem of inflation, if recovery is to proceed at a healthy pace.

- B. Only if the business and labor leaders agree to support some meaningful program of wage and price moderation can the larger, and needed, economic expansion be promoted. The President would briefly describe several approaches we have considered.
- C. If the business and labor leaders find these unacceptable, the President would ask them to come up with an effective alternative. The alternative must be realistic (e.g., business should not propose a 15 percent reduction in the minimum wage).

Warning: If they are adamant, the President may then be put in the position of not being able to propose as large an economic program as would be desirable.

4. Our ability to discuss the inflation problem publicly has been severely constrained by the fear that any statements or serious exploration of options with a wide audience will be interpreted as a move toward controls or guideposts. We haven't been able to mobilize public support for any version of an effective program. In particular, an Okun-like tax incentive -- which on substantive grounds has merit -- has never been widely or seriously discussed as a live possibility by business, labor, or Congressional leaders. We cannot now incorporate it as part of our program without more public airing and discussion.

We might be able to break out of this position by the following approach:

- A. The President would announce, as part of next year's economic program, that he is appointing a task force within the Administration to explore immediately the use of tax measures, and other approaches -- not including wage and price controls -- to reduce inflation. Since the key problem is private wage and price behavior, building consensus is critical.
- B. That group would be charged with getting the views -- on as wide as possible a basis -- of business, labor, consumers, Congressional leaders, economists, etc. They would hold public hearings, and openly discuss the pros and cons of various alternatives.

- C. They should report to the President by, say, April 15 with the results of their efforts. The Administration would report to the public and to Congress shortly thereafter.
- D. This approach could be discussed with business and labor groups in the meetings with the President suggested in Option 3 above.

Warning: This effort to go public, without making any immediate policy recommendations, may be attacked as adding a new element of uncertainty to the economy. It might also be depicted as vacillating -- i.e., we are not leading, but seeking consensus before we move.

\*\*\*\*\*

Anything we do that is effective in coming to grips with inflation raises very real political or economic problems. Most of the measures discussed above will be attacked as leading to greater business uncertainty and as the first step to wage and price controls. (The sales tax approach does not suffer from this difficulty, but it has problems of its own.)

The size of the potential gains and the probable costs are matters of judgment. It is impossible to use past history or statistical methods to assess them. As a consequence, the President's advisors have different views, and different shadings of views, about this troublesome problem. We think that, at this stage, an airing of these views with the President is the best way of coming to a decision on how to proceed.



Electrostatic Copy Made  
for Preservation Purposes

Department of Energy  
Washington, D.C. 20585

December 7, 1977

MEMORANDUM FOR:

Jim Schlesinger

FROM:

Al Alm

AA

SUBJECT:

Possible Compromise Positions on the  
National Energy Act

1. Crude Oil Equalization Tax

a. Oil Incentives

The attached table sets forth the compromise oil pricing incentives under discussion with Senator Long that fall within the current statutory restriction of the composite price.

INCREASE IN REVENUES TO PRODUCERS  
(Millions of Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<sup>9 mo.</sup> <u>1981</u>	<u>Total</u>
a) Proposals Contained in the NEP					
*1977 world price in 3 years	\$153.2	\$390.4	\$627.6	\$584.9	\$1,756.8
*Tertiary recovery	18.6	43.3	74.4	74.3	74.3
b) Additional Incentive Proposals					
*New reservoir definition	28.3	45.6	63.1	80.1	217.0
New oil moves immediately to 1977 world price	134.0	103.0	-	-	237.0
Frest start on decline curve	399.2	419.3	444.3	342.0	1,604.5
*Bonus on decline curve for marginal properties	<u>58.6</u>	<u>57.6</u>	<u>56.8</u>	<u>41.1</u>	<u>214.0</u>
Total	\$791.9	\$1,059.2	\$1,265.9	\$1,122.4	\$4,239.9
Total, less proposals already announced in NEP	\$620.1	\$ 625.5	\$ 563.9	\$ 463.2	\$2,272.5

In addition, we would be willing to offer some incentives for oil shale (possible entitlements treatment or a limited price guarantee) and phase-out the small refinery bias (otherwise eliminated by COET) over an 18 month period, starting at 100 percent of the entitlements benefit and ending at 66 2/3 percent.

As part of a total package, Senator Long has indicated to Congressman Ashley that he would accept the starred items in the above list. Thus, there are still two more items within the composite price - going immediately to a new oil price and a fresh start on the decline curve - that could be offered. In addition to these oil pricing incentives, Senator Long has indicated a desire to include a 10 percent dry hole investment tax credit in his producer incentive package. This would cost approximately \$300 million per year, or \$2.1 billion over the next 7 years.

#### b. Tax Revenues

A compromise for the use of the COET revenues could be:

- o All funds would be rebated in 1978. From 1979 to 1981, 70 percent of the funds would be available for rebates or tax reform
- o Thirty percent of the funds would be available for an energy trust fund that would be subject to future authorizations and appropriations for fund disbursement.

We have not talked with Long in any detail about the percentage of COET funds going into any trust fund, or how trust fund revenues could be used. Congressman Ullman has suggested a 30 percent total for the trust fund, and Long has not objected. From a budget standpoint, it is critical that any trust fund expenditures displace expenditures from the general treasury which would occur anyway (e.g., SPRO and certain R&D activities).

## 2. Oil and Gas Users Tax

The chart below indicates the impacts of a potential range of compromise options on the oil and gas users tax. The chart includes the House and Senate passed user taxes as points of reference.

The two industrial user tax options most worth pursuing are numbers 1 and 2. Number 1 would tax all existing units throughout their life. Number 2 would tax existing units on an increasing basis with no tax the first third of their life, a lower tier tax for the second third, and the full tax for the remainder of the useful life.

Our analysis indicates that the savings are very close between the two options (only 50,000 a barrels a day difference), but the revenue difference equals \$2.6 billion. An assessment of our success in deleting many of the other business credits will be critical in determining whether this \$2.6 billion revenue loss is acceptable.

With respect to utilities, Option 1 is the most likely result. This option couples the Senate tax with a 10 percent ITC and provides 100,000 barrels per day of savings. Option 2 indicates that the savings would be almost nothing if the investment tax credit continues only until 1982, since most of the investment occurs after this date. There has been some talk of limiting all the tax credits to a 1982 cutoff. We should particularly oppose this with regard to the oil and gas user tax.

It would be possible to save another 230,000 barrels per day at an additional cost of \$1.5 billion if we were to go to a 15 percent ITC for utilities. Here the tax credit, not the tax and rebate, drives the savings at a substantial cost to the Treasury. The possibility of getting anything stronger than the Senate bill on the tax and rebate side is very slim.

USER TAX OPTIONS  
1985

	Energy Savings <sup>1/</sup> (millions of barrels)		Revenues (billions of current \$)				
INDUSTRIAL	Oil & Gas	Oil Imports	Gross	Rebate	Net	ITC	Total <sup>2/</sup>
<u>House bill</u>	1.5	.8	+25.1	-21.9	+2.7	-.2	+2.5 <sup>4/</sup>
<u>Senate bill</u>	.65	.5	+1.6	-1.4	+.2	-2.1	-1.9
Possible Compromises <sup>3/</sup>							
<u>Option 1</u>							
o Tax all existing units	.95	.65	+12.6	-8.6	+3.5	-.3	+3.2
o Rebate plus regular ITC							
o 10% additional ITC thru 1985							
<u>Option 2</u>							
o Partial tax on existing units (1/3, 1/3, 1/3) <sup>4/</sup>	.90	.60	+8.6	-7.4	+1.1	--.5	+.6
o Rebate plus regular ITC							
o 10% additional ITC thru 1985							
<u>Option 3</u>							
o Partial tax on existing units	1.05	.75	+8.6	-7.4	+1.1	-1.2	-.1
o Rebate plus regular ITC							
o 15% additional ITC thru 1985							



USER TAX OPTIONS  
1985

	Energy Savings				Revenues		
	Oil & Gas	Oil Imports	Gross	Rebate	Net	ITC	Total <sup>3/</sup>
<u>Option 4</u>							
o Partial tax on existing units							
o Rebate plus regular ITC	.65	.45	+8.6	-7.4	+1.1	-.2	+ .9
o 10% additional ITC thru <u>1982</u>							
<u>UTILITIES</u>							
<u>House bill</u>	.2	.1	-	-	+ .2	-	+ .2
<u>Senate bill</u>	.5	.4	-	-	-	-3.8	-3.8
<u>Possible Compromises</u>							
<u>Option 1</u>							
o Senate tax	.10	.08	-	-	-	-1.0	-1.0
o 10% ITC thru 1985							
<u>Option 2</u>							
o Senate tax	0	0	-	-	-	-0.9	-0.9
o 10% ITC thru 1982							

1/ Includes effects of conservation.

2/ Preliminary estimates, includes income offset.

3/ All options use House oil tax and House exemptions, and 100%/80% gas tax.

4/ Estimate does not include the \$2.4 billion revenue inflow from denial of the regular investment tax credit to firms which select the rebate, and to new oil and gas fired units.

5/ Existing units are exempt from tax in first third of their life, pay lower tier tax for second, third and upper tier tax for final third.

### 3. Gas Guzzler Tax

From the Administration's point of view, the House Gas Guzzler Tax would be the best conference outcome. Considering the strong feelings of the Senate, however, a compromise will most likely emerge. One possibility would be to tax vehicles at the House rates down to slightly lowered Senate prohibitions and establish even stiffer taxes or fines for vehicles falling below these Senate minimums.

The savings from the gas guzzler options are as follows:

	<u>MBD Savings</u> <u>in 1985</u>
1. House gas guzzler tax .....	175
2. Doubling of EPCA penalties ....	175
3. Prohibitions on gas guzzlers ..	0-10
4. 1 and 2 Combined .....	285

Indications from Senators Long and Congressman Ashley are that the Senate may now be prepared to recede to the House on the Gas Guzzler tax, if the House in turn recedes to the Senate on the question of maintaining the state and local gasoline tax deductions. While we would like to win on both, on balance the Gas Guzzler is more important.

### 4. Natural Gas

A number of alternatives for a natural gas settlement, together with their revenue impacts on consumers, are set forth in the table below. These alternatives include:

a. Immediately allow a price for new gas equal to the Btu equivalent of upper tier oil (\$2.03 per mcf) and when that price is equal to the Administrations Bill, provide a price at the Btu equivalent of the average refiner cost of domestic oil.

b. Provide a \$.75 per mcf bonus for gas on state lands.

c. A \$1.75 per mcf initial price rising to the Btu equivalent of the world price of oil in 1981 with controls terminating in 1982. This option could include Presidential authority to continue or reimpose controls subject to a joint Congressional resolution of approval.

d. A \$1.75 per Mcf initial price rising to the Btu equivalent of distillate in 1984; price controls could terminate in 1985 with Presidential authority to continue or reimpose. Another variation might be to establish an automatic re-imposition trigger.

e. Change the definition of new gas to include extensions of existing reservoirs (a variation might be to more tightly define extensions or allow such extensions to get only some percentage of the new gas price).

f. Decontrol high-cost gas

The cheapest alternative is to allow a new gas price equivalent to upper tier oil (\$2.03 per Mcf). This adds only \$300 million to the House passed bill over the next seven years. If this is unacceptable, option 3 would establish a trajectory of prices going from \$1.75 to the equivalent of \$3.30 in current dollars. Finally, keeping the \$1.75 price and going to an extension of existing reservoirs definition is attractive to many. The problem is the cost - it could be as much as 25 billion between now and 1985. If this emerges as the most preferred option, a way of limiting the extensions definition to reduce the impact should be explored.

The procedure for ending or re-imposing regulation could work as follows:

- A Presidential finding would be necessary
- The Presidential decision would have to be sustained by a joint resolution

- The President could reimpose controls based on the following criteria:
  - o Market not in equilibrium
  - o Lack of competition
  - o Windfall profits
  - o Harm to the economy
- Controls could be reimposed automatically if prices for new gas rise above a trigger level ie: 10 percent above the Btu equivalent of the world price of oil.

## Alternate Natural Gas Price Scenarios

Increased Revenues to  
Producers 1978 - 1985  
(billions of current  
dollars)

---

From H.R. 8444<sup>1/</sup>

- |  |             |
|--|-------------|
| 1. Initial price \$2.03 (upper tier oil) plus inflation until BTU-related price is higher .....                  | .3          |
| 2. A bonus of \$.75 for natural gas from State lands .....   | 1.0 - 1.5   |
| 3. Initial price of \$1.75, increasing to the distillate price equivalent in 1981; controls could end after 1981 | 14.0 - 16.0 |
| 4. Initial price \$1.75, increasing to the distillate price equivalent in 1984; controls could end after 1984    | 12.0 - 14.0 |
| 5. Intrastate rollover contracts to \$1.75; interstate rollover contracts to \$1.45 .....                        | 9.0         |
| 6 a. Expand definition of new gas to include extensions .....  | 25.0        |
| 7. b. More tightly define extensions   | 14.0        |
| 8. Decontrol unconventional gas immediately. <sup>2/</sup> .....   | 2.0         |

It is important to note that the House bill decreased producer revenues by as much as \$5.04 billion compared with the NEP. The treatment of rollover contracts decreased revenues by as much as \$5.8 billion, while the more liberal definition of new gas increased revenues by \$760 million. It would, therefore, be possible to accept Options 1 and 2 and produce a bill with less consumer impact than the NEP.

<sup>1/</sup> The increased revenues do not include revenues from any supply response that would be generated by the program.

<sup>2/</sup> Based on the assumption that deregulated gas would move to the distillate price.

MEMORANDUM

THE WHITE HOUSE  
WASHINGTON

Dec. 7. '77

To: Dr. Brzezinski

From: Tim Kraft TK

Subj: Schedule proposal -- Minister Ushiba

---

There are several reasons why we cannot schedule Minister Ushiba.

- (1) There simply isn't time. The President is fully scheduled from now through the conclusion of the overseas trips. The only exceptions are those specifically requested by him, of which there have been several.

You may look over the grid and see 'space'. But that is much-needed study/preparation time, which the President has asked for in conjunction with the budget meetings.

- (2) Let me remind you of the time budget that the President signed off on at the first of the year --- there are two hours a week allocated for "Foreign Heads of State and Representatives". Next week's budget is taken up by Prime Minister Manley, on Friday, Dec. 16. As for foreign affairs in general, there is a SALT breakfast (Senators Nunn and Jackson), a Foreign Policy breakfast for 90 minutes, and a 30-minute staff session, requested by the President, on the Canal treaties.
- (3) Let me mention a couple of points in a more general vein. The consensus of the Vice-President's Agenda planning group is that the President is going to have to start meeting less with deputies and ministers and reserve more time for principals, particularly with regard to foreign affairs and particularly in the year ahead. Also -- in a conversation that Hamilton and I had with the President on Monday of this week, I mentioned Bob Lipshutz's suggestion of the first Executive Committee meeting --- that the staff try to assume more responsibility and send less paper to the President. The President supports that notion strongly.

The bottom line is, that it may be very important for the President to see Ushiba --- but there are a lot of "very important" things for him to do in the next two weeks. And it should rest with his staff to make these decisions, and not run a paper or verbal request into the study to him.

THE WHITE HOUSE  
WASHINGTON

SCHEDULE PROPOSAL  
DATE: December 6, 1977  
FROM: Zbigniew Brzezinski  
VIA: Tim Kraft

8.

~~CONFIDENTIAL~~ - GDS

MEETING: Call on you by Nobuhiko Ushiba, Minister of State for International Economic Affairs in Japan

DATE: Monday, December 12, 1977

PURPOSE: To underscore the importance we attach to an early and dramatic reduction in Japan's current accounts surplus

FORMAT: -Oval Office  
-President Carter, Nobuhiko Ushiba, Ambassador Fumihiko Togo, Zbigniew Brzezinski, Henry Owen, and Mike Armacost (Notetaker)  
-20-30 minutes on Monday morning, December 12.

CABINET PARTICIPATION: Zbigniew Brzezinski

SPEECH MATERIAL: Talking points will be provided

PRESS COVERAGE: Press announcement  
Photo opportunity

STAFF: Zbigniew Brzezinski

RECOMMEND: Zbigniew Brzezinski, Department of State

OPPOSED: None

PREVIOUS PARTICIPATION: President Carter has met Mr. Ushiba at Trilateral Commission meetings

BACKGROUND: Nobuhiko Ushiba, Minister of State for International Economic Affairs, will be in the United States December 12-15 to consult further on the measures which Japan intends to implement in order to reduce its current accounts surplus and ameliorate frictions in the US-Japan bilateral trade relationship. A former Ambassador to the U.S., Ushiba's recent selection to the Cabinet is an earnest of Prime Minister Fukuda's intent to seek to accommodate major U.S.

~~CONFIDENTIAL~~ - GDS

Jay 2/22/90

CONFIDENTIAL

2

concerns on trade and economic issues. Intelligence information suggests he may bring a substantial package with him. A Presidential meeting with Ushiba can help to strengthen the hand of one of those who is pressing for a forthcoming Japanese position, and set the tone for productive consultations with key Administration economic officials.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

CONFIDENTIAL - GDS